

## A-3 Selected strategies to reduce costs and improve efficiency<sup>1</sup>

This fall, the Priorities of Government Results teams will be asked to prioritize activities, based on their demonstrated contribution to results, within some dollar constraint. As part of this task, teams will be asked to consider a variety of strategies to reduce costs and improve efficiency in order to free up budget capacity to invest in effective activities. Agencies should also consider these strategies as they consider alternatives in the budget.

<i>Is there an opportunity to. . .</i>
1. Eliminate on activity or process that doesn't contribute significantly to results?
2. Consolidate programs or agencies by consolidating or reconciling missions?
3. Consolidate funding streams in order to better use resources for true priority activities?
4. Consolidate policy authority now dispersed among various organizations?
5. Consolidate similar operations now dispersed among various organizations?
6. Consolidate layers within an organization?
7. Consolidating access to information?
8. Consolidating "back room" activities now dispersed among various organizations?
9. Have an activity performed better or at a lower cost at another level of government or in another agency or program?
10. Cut the "cost of mistrust" by finding less costly means of promoting compliance?
11. Reduce the cost of accountability by ensuring controls are commensurate with the risks?
12. Reduce the costs or improve the results of an activity through competitive contracting?
13. Improve results by setting service standards or guarantees?
14. Make services more responsive to citizen preferences?
15. Improve the return on the state's investments in grants, subsidies entitlements and capital projects?

1. **Clear the decks.** Activities that do not contribute significantly to achieving any of the statewide results should be eliminated. Divesting will almost certainly mean disruption, but in return, it will free up resources to invest in the results that matter most to citizens. Ordering activities by their contribution to the results provides a good foundation for determining which activities should be considered for elimination.
  - **Consolidate WHERE IT MAKES SENSE.** Consolidation is the perennial favorite of politicians, who often assume there are economies of scale to be had from merging agencies, or merging service programs into "one-stop" centers. These mergers are rarely managed beyond moving boxes around on an organization chart, with the result being few real savings and many new costs, as well as significant disruption in service delivery and staff morale. Consolidations are most likely to produce savings or improve results if they are well-managed, and focused on specific areas, such as:
2. **Consolidating missions.** When programs or agencies are combined, they bring with them their various missions. Reconciling and blending the various missions requires a conscious

<sup>1</sup> (Adapted from materials provided by the Public Strategies Group)

and deliberate organizational change effort, for which time is rarely taken. The result is a lack of focus, if not outright conflict between missions. Consolidations work best when the sponsors of the consolidation work with the resulting program/agency to agree on a clear, focused mission and set of clear, limited performance targets.

3. **Consolidating funding streams.** Far more powerful than consolidating agencies or programs is consolidating their funding streams. Specifically dedicated funding leads inevitably to specifically dedicated – and therefore complicated – agencies. Tracking costs according to the “color of money” is another form of the “cost of mistrust.” Consolidate the funding, focus it on clearly prioritized outcomes, and use it to purchase those outcomes from whatever programs or agencies can best produce them.
4. **Consolidating policy authority.** Most agencies have both policy (“steering”) responsibilities and operating (“rowing”) responsibilities. These are not the same. “Steering” focuses on doing the right things, while “rowing” functions focus on doing them right. By separating these roles, each can be performed better. Once separated, steering can be consolidated to ensure that policy is integrated and mutually reinforcing across a government unit. When coupled with consolidated funding streams, steering organizations can “purchase” key results from those who row.
5. **Consolidating similar operations.** Programs or activities that do similar kinds of work are good candidates for consolidation. Examples include call centers, where technology now makes it cost effective to consolidate customer service call centers in one location instead of in local offices. In such cases, the similarity of the work can offer opportunities for consolidation.
6. **Consolidating layers.** Organizational layers may have been necessary when communication was cumbersome and employee skills were limited. But with today’s technology and well-trained workforce, the justification for so many layers should be questioned. Consolidating layers can save money. It can also improve service when coupled with delegating more authority to those closest to the customers.
7. **Consolidating access.** Much of what government does involves the collection and processing of information. Accessing what the government knows has often been cumbersome and expensive for those inside and outside of government units. Technology provides the opportunity to consolidate access, and in so doing, to reduce costs and improve service.
8. **Consolidating “back room” activities.** Many agencies have similar back-room functions (e.g., phone answering, purchasing, data storage), even though their activities that directly touch citizens are very different. In these cases there may be an opportunity to create a common “back room,” reduce the total resources dedicated to these functions, and re-deploy resources to direct service activities.
9. **Can an activity be performed better or at a lower cost at another level of government or in another agency or program?** The means to achieve the desired results need not be

restricted to any specific agency, program or level of government. The best ways to achieve a result may be found in unexpected places – in places other than where it is currently being done. In the original “POG” exercise, Results Teams looked across the entire state and local enterprise to choose those activities that were best suited to achieving the desired outcome within the resources available. In some cases, they determined that funding was better spent by allocating it to local government agents, or by consolidating similar programs in different agencies.

**10. Cut the cost of mistrust.**

- 11. Reduce the cost of accountability by ensuring controls are commensurate with the risks.** By estimates of the Public Strategies group, as much as 20-30% of government spending can be related to controlling the actions of citizens, businesses and the other 70-80% of government. Much of that spending is based on the belief that people will lie, cheat and steal if given the opportunity. If you look into the history of the control program, you will often find that a whole set of policies and procedures were put into place in reaction to one person’s misappropriation. This level of mistrust is not only expensive – it undermines performance.

Examples of opportunities to cut the cost of mistrust abound in any agency. A look at aligning controls with risks can be an especially effective way to reduce the cost of mistrust. For example, in British Columbia the government has moved from multiple layers of required review within individual agencies for each purchase, to a centralized risk-based post audit of sample purchase transactions. This has not only significantly reduced costs of the purchase process, but it also has improved compliance by providing enterprise wide information about problem areas that can be addressed system wide.

Many process improvements can be implemented to reduce the layers of “mistrust” that slow down processes and frustrate customers and staff alike.

- 12. Contract competitively.** When public agencies are required to compete, they can unleash the creative potential of their employees, because the incentives for success are so direct. The Personnel System Reform Act gives managers the flexibility to consider contracting for services that would otherwise be done in-house, if it can be done at a better price or with a better result. Before the agency can competitively contract a service, staff will have the opportunity to present more cost-effective alternatives.
- 13. Establish service standards and guarantees.** What if an activity developed and posted service standards and provided customers a rebate or other redress if these standards are not met? That’s how it works today when you apply for a passport. They either get it to you on time or you get your money back. The result: delighted customers who get passports much faster than they ever thought possible.
- 14. Make services more responsive to customer preferences.** Although we are in public service, it’s easy to forget how the public sees what we do. Focusing on the results that matter most to citizens means that we must bring that question into our process

improvement efforts. As we examine our activities and processes, we should test each step against the requirement that it add positive value to the process customer. If we cannot show that the additional step, review or paperwork supports one of our key results, we should consider eliminating that step. Just being given a choice often increases any customer's perception of value. We can make services more responsive to customer preferences by:

- **Letting customers serve themselves** through service vouchers or web-based service delivery. Such services give customers control over the content, time and convenience of the services they want. Washington citizens can now buy fishing licenses, check shellfish beach closures, order a moorage permit, renew tabs and search for a state job from their home 24/7. These kinds of self-service options add value to citizens and can be very cost-effective in the medium or long run.
- **Giving customers choices** and making sure that the money follows the customers. This creates competition between service providers for the customers' business.

**15. Improve the return on the state's investments in grants, subsidies entitlements and capital projects.** Much of our budget is spent on aid payments to other governments, institutions or individuals. Those who receive them often treat these payments as entitlements because there is no explicit obligation expected in return. Managers and staff should review entitlements within activities and explore ways to explicitly connect payments to an obligation that supports the intended result.

Subsidies result when those who benefit most directly from a service are not the same people who pay for it. Over time, subsidies and tax credits come to be seen more as entitlement than an investment. In some cases, they are no longer targeted to those who truly need them, or on producing a return on the investment. By re-examining subsidies and tax credits, and eliminating those that no longer produce the desired results, we can redirect those resources to more effective strategies.

Teams that deal with the use of "capital investment" resources should develop mechanisms for ensuring that every investment generates results – in the form of a return on that investment. Among the top priorities for capital should be investments – such as technology systems – designed specifically to make government service delivery better, faster and cheaper. Proposed investments that produce a high return in improved quality or reduced costs should take precedence over those that produce a lower return.